



THE
3DO
COMPANY

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LAW DEPT.

OCT 05 1995

WMS INDUSTRIES

Copy Byron
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TELECOPY MESSAGES

Date	Time
10/3/95	12:15 pm
TO:	KEN FENESNA
OFFICE:	WILLIAMS
FAX #:	312 961-1090
FROM:	JOHN ORCUTT
PHONE NUMBER:	415 261-2671
NUMBER OF PAGES: (Including Cover)	7

Message

Mr. Kenneth J. Fedesna
Vice President and General Manager
Williams Games, Inc.
3401 North California Avenue
Chicago, Illinois 60618-5899

Fax: 312 961-1090

October 3, 1995



Dear Ken:

The revised MOU follows. As you know, I've been trying to reach you by telephone to discuss NRE and any other issues you may have with the 3DO proposal. I must admit I was surprised that, after reaching agreement with Greg Richardson and Todd Sitrin in New Orleans, Williams is reconsidering the commitment. I am wondering if our two companies have different levels of interest in completing this deal.

As I understand your position, you believe that MEI and 3DO should work out any NRE issues between ourselves. There are three reasons why I cannot accept that approach:

1. Matsushita does not have an M2 license. Nor is there any guarantee that there will be an M2 license.
2. If 3DO does eventually grant a license to MEI, and Williams counts on MEI for the arcade board, Williams will not meet its objectives. It would take MEI 18-24 months to deliver the board.
3. 3DO cannot and will not absorb the cost of developing an arcade system. There is no way, at this time, we can get the money from MEI. So, if you are unwilling to front the fee, 3DO will not enter an agreement and will not develop the board for Williams.

As you know, Todd has been working on a technical session for next Monday in Chicago. Given that we don't have agreement on this key issue, it doesn't make sense to proceed with that meeting unless you and I can come to terms. If we can resolve this issue in the next day or two, we could keep Monday's meeting on track. Otherwise, we should put this deal on the back burner.

Of course, I am also anxious to discuss your ideas for a joint venture and any other opportunities as well. If we can resolve the MOU, then those discussions can proceed as well. Thanks, Ken.

Best regards,


John Orcutt

cc: Byron Cook
John Rowe
Greg Richardson
Todd Sitrin

MEMORANDUM OF UNDERSTANDING
Production and Purchase of M2 Chipsets and Board Level Products

This Memorandum of Understanding (the "MOU") is entered into and rendered effective as of the 29th day of September, 1995, by and between The 3DO Company, a California corporation with principal offices at 600 Galveston Drive, Redwood City, California, 94306 (hereinafter "3DO") and Williams Electronics Games, Inc., a Delaware corporation with principal offices at 3401 North California Avenue, Chicago, Illinois 60618-5899 (hereinafter "Williams") to confirm the principal terms and conditions regarding Williams' purchase and use of chipsets and board level products incorporating 3DO's next generation, interactive technology familiarly known to the parties as "M2" or the "M2 Technology."

Promptly following the execution of this MOU, the parties will negotiate in good faith and execute a more comprehensive agreement that incorporates the provisions of this MOU, plus such additional provisions as may be mutually agreed upon by the parties (the "Comprehensive Agreement").

1. **The Products.** The following chipset product and board level product configuration containing 3DO's M2 Technology will be made available for purchase by Williams. The M2 chipset product or the M2 board level product are hereinafter individually referred to as a "Product", and together are referred to as the "Products."

1.1 **M2 Chipset Product:** The M2 chipset product will consist of a Power PC 602 processor and 3DO's proprietary "BDA" ASIC (each running at 66 MHz, as referenced in the description of the Model 1 board level product described below) and 3DO's proprietary "CDE" chip. Each M2 chipset will include all of the following M2 features:

- High performance transformation and rendering
- Gouraud shading
- Z-buffering
- Point, linear, bi-linear and tri-linear MIP mapping
- Perspective correction of textures
- 16 or 24 bit color
- MPEG video decompression
- Audio DSP with audio input and output support

1.2 **M2 Board Level Product:** The M2 board level product will consist of a fully assembled core logic board derived from 3DO's M2 Technology. The Model 1 board level product will include:

- 66 MHz 602 processor
- 66 MHz BDA
- 8 MB SDRAM
- CDE
- 1 MB PROM
- RGB non-interlaced video output with a 16 MHz clock
- 44.1 KHz audio output
- IDE interface
- PCMCIA interface
- Control Port interface
- Power connection

Spec?

2. **License Grant.** 3DO will grant Williams, subject to the terms and conditions set forth herein and as set forth in the Comprehensive Agreement, a non-exclusive, worldwide license under 3DO's intellectual property rights relating to the M2 Technology, to use and distribute each of the Products solely in any location-based entertainment device (an "LBE Device") that is

manufactured by Williams or any of its subsidiaries and that provides the public display and/or public performance of a Williams' original interactive entertainment audiovisual work encoded in CD-ROM format or in an EPROM or stored in a harddisk (but specifically excluding any networked configuration).

Problem w/ outside devel.

3. Term Length. The licensed rights to be granted to Williams pursuant to the Comprehensive Agreement, as set forth in Section 2, above, will continue in full force and effect for a period of three (3) years from the date of Williams' first shipment of market test units of any LBE Device that contains either of the Products unless sooner terminated as follows:

3.1 If either party defaults in its performance of any provision hereof, then the non-defaulting party may elect to terminate the Comprehensive Agreement if the defaulting party fails to cure its default within thirty (30) days of receipt of written notice referencing such default.

3.2 The Comprehensive Agreement will terminate automatically without notice upon (i) the commencement by or against Williams of insolvency, receivership or bankruptcy proceedings or any other similar proceeding for the settlement of Williams' debts (unless such proceeding is discharged within sixty (60) days of commencement), (ii) upon Williams' making an assignment for the benefit of any of its creditors, or (iii) in the event Williams elects to discontinue the sale or distribution of LBE Devices that contain either of the Products or otherwise ceases to conduct such business.

What happens if 3DO fails

4. Product Pricing. Pricing for each of the licensed Products referenced in Section 1, above, reflects two scenarios: (1) low volumes associated with Williams' development and internal testing process (up to 25 Product units in the aggregate), and (2) higher volumes associated with the commercial introduction of units of any LBE Device containing either of the Products. While 3DO expects prices to decrease over time, 3DO cannot commit at this point to forward pricing beyond Q2 1997. In addition, because SDRAM prices represent a significant risk for forward pricing of M2 board level products, 3DO will be entitled to adjust Q2 '97 pricing upward by an amount equal to cost plus 25% if SDRAM prices do not timely meet assumed targets (approximately \$23-\$28/MB). Based on annual purchase volumes equal to the quantities referenced hereinafter, during the twelve month periods beginning April 1st and ending March 31st, the prices for each of the Products will be as follows:

	M2 Chipset Product		M2 Board Level Product	
	Q4 '96*	Q2 '97	Q4 '96*	Q2 '97
<u>MODEL 1</u>				
Internal Use/Test Units:	\$590		\$1,460	
Production Units:				
2,000 - 5,000 qty.	\$264	\$204	\$835	\$660
5,001 - 10,000 qty.	\$242	\$187	\$766	\$605
10,000 - 15,000 qty.	\$231	\$179	\$731	\$578
15,001+ qty.	\$220	\$170	\$696	\$550

* Internal Use/Test units assume delivery Q4 '96

5. Order Quantities and Lead Times. Following initial low volume orders for internal and test market usage, Williams' individual purchase orders will schedule the production and delivery of at least two thousand (2,000) Product units and will specify minimum production lead times of not less than eight (8) weeks.

Delivery commitment? full warranty?

6. Number of Arcade Titles. Williams agrees that it will develop and commercially release at least one (1) LBE Device containing one of the Products within eighteen (18) months from the date of execution of this MOU.

To the best of our ability

7. License Fee. Within ten (10) working days following the execution of this MOU, Williams will pay 3DO the sum of two hundred fifty thousand dollars (US \$250,000) with respect to the rights to be granted to Williams, as referenced in Section 2, above.

Need to clarify something about model 1
the pricing for
the 3DO

8. **NRE Expenses.** Following execution of this MOU, Williams will pay 3DO a one-time, up-front, non-refundable NRE fee. The aggregate NRE fee will depend upon the parties' mutual agreement regarding chipset vs. board level product options and final configurations. To provide the necessary infrastructure and the incremental engineering needed to complete the Model 1 board level product, Williams will pay 3DO, within ten (10) working days following the execution of this MOU, a non-refundable NRE fee equal to fifty thousand dollars (US \$50,000). In addition to general engineering and project management, the parties anticipate that many engineering efforts specific to the Products and/or to LBE Devices that contain one of the Products will be undertaken by 3DO, including the following:

- Design, testing, and implementation of both software and hardware interfaces for Jamma connector
- Design, testing, and implementation of hardware interface for IDE drive
- Design, testing, and implementation of both hardware and software for IDE driver
- Design, testing, and implementation to support RGB out (including revision of BDA and additional chips)
- Develop, build, and release of software tools to support arcade design
- Design, testing, and implementation of arcade specific development equipment
- Quality assurance for entire design effort

Engineering efforts not covered by the mutually agreed aggregate NRE fees will be available from 3DO at its then-prevailing rates and terms and conditions, with mutual agreement on the timing and content of such efforts.

9. **Support.** 3DO will provide technical assistance and product documentation to Williams' engineering staff to support Williams' efforts to integrate the Products into its LBE Devices. Should Williams desire additional technical assistance and/or support from 3DO, 3DO shall use all reasonable efforts to provide such assistance and/or support according to 3DO's then-prevailing rates and terms and conditions. 3DO will also provide Williams with the opportunity to purchase development equipment, including a consumer system design with 8 MB of SDRAM, in accordance with 3DO's then-prevailing prices and terms and conditions. 3DO anticipates that arcade-specific development systems will be available Q1 1996.

10. **Encryption Services.** 3DO will encrypt any software which Williams intends to deploy using the Product.

11. **Intellectual Property.** Williams will use all reasonable efforts to preserve and protect the proprietary nature of the Products and 3DO's intellectual property rights relating thereto. Williams covenants that it will not to disassemble, dismantle, decompile, reverse engineer, or otherwise attempt to derive any technology or confidential information from either of the Products (or any portion thereof).

12. **Consumer Software Publishing.** In the event Matsushita Electric Industrial Co., Ltd. or any of its subsidiaries waives its/their rights to publish any consumer software version of an LBE Device that contains either of the Products, 3DO will have the right of first option for a period of ninety (90) days to obtain the publishing rights for such consumer software products upon such terms and conditions as will be negotiated in good faith by 3DO and Williams (or Williams Entertainment Inc., as appropriate). In any case where Williams (or Williams Entertainment Inc., as appropriate) has the publishing rights for consumer software versions of any LBE Device that contains either of the Products, Williams (or Williams Entertainment Inc., as appropriate) agrees that a 3DO-formatted version of any such audiovisual work will be commercially released in the United States, Japan and Europe no later than the initial date of release of such audiovisual work in each of such countries or territories, respectively, on any other interactive consumer platform for which Williams (or Williams Entertainment Inc., as appropriate) holds publishing rights.

13. **Market Information.** Williams will provide 3DO, within thirty (30) days following the end of each calendar quarter during the term of the Comprehensive Agreement, with written summaries of market information regarding its LBE Devices, including, but not limited to, the total number of LBE Devices that contain either of the Products which were sold during such quarter

(referencing such sales on a country-by-country and title-by-title basis), the specific brand names under which such LBE Devices are distributed, and such additional information as may be reasonably requested by 3DO.

14. Trademarks and Publicity. Williams (or Williams Entertainment Inc., as appropriate) will conspicuously and legibly display 3DO's company name and logo, and relevant tradenames and trademarks regarding the Products, on any resulting LBE Device (including, but not limited to, displaying such names, logos and marks on the cabinet, control panel, and splash and introduction screens), as well as in any advertising and promotional materials that refer to any LBE Device that contains either of the Products.

14.1 On all advertising and promotional materials (including, but not limited to, television and print advertising, public relations materials, retail promotional materials, direct mail pieces, and corporate promotional pieces) produced by or for Williams (or Williams Entertainment Inc., as appropriate) regarding any consumer software version of an LBE Device that contains either of the Products for which a 3DO version will be published, whether by Williams or a third party, the appropriate 3DO format logo will be displayed in a size no smaller than any other corporate or product logo and language that indicates that a consumer software version is available on such 3DO format (or formats) will be used. Notwithstanding the foregoing, any promotional material that relates to a specific consumer platform (other than a 3DO format) will not need to include the relevant 3DO format logo or availability language. *add 3DO logo*

14.2 In cases where Williams (or Williams Entertainment Inc., as appropriate) has publishing rights with respect to any 3DO version of an LBE Device that contains either of the Products, all advertising and promotional materials produced by or for Williams (or Williams Entertainment Inc., as appropriate) in which any consumer versions of such LBE Device are listed or described will list or describe the relevant 3DO version first.

14.3 In cases where Williams (or Williams Entertainment Inc., as appropriate) has publishing rights with respect to any 3DO version of an LBE Device that contains either of the Products, all advertising and promotional materials produced by or for Williams (or Williams Entertainment Inc., as appropriate) regarding any consumer version(s) of such LBE Device will use photographic or video images from the relevant 3DO platform version and will be identified in print as being reproduced from such 3DO version.

14.4 Williams (or Williams Entertainment Inc., as appropriate) agree to cooperate and support 3DO's public relations and marketing activities concerning any LBE Device that contains either of the Products, as well as such activities concerning any 3DO version of any such LBE Device. Such cooperation and support includes, but is not limited to, joint product PR announcements, and joint trade show participation.

14.5 Any products produced by or for Williams (or Williams Entertainment Inc., as appropriate) that are based on or otherwise derived from any audiovisual content distributed in conjunction or for use with any LBE Device that contains either of the Products will display the M2 arcade logo in a size no smaller than any other corporate or product logo contained therein or displayed thereon. All marketing, product promotional, and public relations materials for such derivative products will display the M2 arcade logo and text will identify that such product is based on or otherwise derived from an LBE Device that contains one of the Products.

15. Marketing Introduction. Williams will notify 3DO at least forty-five (45) days prior to the marketing introduction of each LBE Device that contains either of the Products, and Williams will allow 3DO to participate in any marketing introduction events regarding such LBE Device. Additionally, 3DO will be freely entitled to undertake its own advertising, promotional and marketing efforts to further trade and public awareness of the M2-based Williams products.

16. Confidentiality. The existing non-disclosure agreements which the parties executed on or about April 24, 1995, as amended, will be extended to cover the content and terms and conditions of this MOU and of the Comprehensive Agreement.

17. **Relationship.** In performing services hereunder, each of the parties will operate as and have the status of being independent contractors and neither party will act as or be an agent or employee of the other party. Neither party will have any right or authority to assume or create any obligation of any kind or to make any representation or warranty on behalf of the other party, whether express or implied, or to bind the other party in any respect whatsoever.

18. **Non-Assignment.** Because 3DO has entered into this MOU based upon the particular abilities of Williams, Williams will not be entitled to assign this MOU or any of its rights hereunder, nor delegate any of its obligations hereunder, unless the written consent of 3DO shall first have been obtained. Any attempted assignment or delegation without such required consent shall be void and a breach of this MOU.

19. **Governing Law.** This MOU will be governed by and construed according to the laws of California, excluding that body of law related to choice of laws, and of the United States of America. Consultant acknowledges and agrees that any action or proceeding brought to enforce the terms of this MOU will be brought in the County of Santa Clara or San Francisco, State of California (if under State law) or the Northern District of California (if under Federal law) and each of the parties hereby submits itself to the exclusive jurisdiction and venue of such courts for purposes of any such action. } w

20. **Waiver; Modification.** No failure or delay by either party in exercising any right, power, or remedy under this MOU will operate as a waiver of any such right, power, or remedy. No waiver or modification of any provision of this MOU will be effective unless in writing and signed by the party against whom such waiver or modification is sought to be enforced.

21. **Severability.** If any provision of this MOU (or any part thereof) is held to be void, invalid or otherwise unenforceable by any court of competent jurisdiction, such provision will be stricken herefrom, while the remaining provisions of this MOU will not be affected in any manner.

22. **Integration.** This MOU constitutes the entire understanding and agreement of the parties and supersedes all prior and contemporaneous discussions, negotiations and communications between the parties, both oral and written.

In witness whereof, the parties have caused this Memorandum of Understanding to be signed by their duly authorized representatives and rendered effective as of the date first set forth above.

THE 3DO COMPANY

WILLIAMS ELECTRONICS GAMES, INC.

By _____

By _____

Name _____

Name _____

Title _____

Title _____

Williams Entertainment Inc., a Delaware corporation with principal offices at 1800 South Business 45, Corsicana, Texas 75151, hereby acknowledges and confirms its agreement with the provisions of Section 12 and 14 of this MOU.

By _____

Name _____

Title _____